

Testimony of Congressman Christopher Shays

Subcommittee on Specialty Crops & Foreign Agriculture Programs Committee on Agriculture

‘Review of the Peanut Program’

June 13, 2001

Chairman Everett, Ranking Member Condit and Members of the Subcommittee:

I appreciate the opportunity you’re giving Paul Kanjorski and me to share our views on the federal peanut program. As your committee prepares to draft the new farm bill, you’ll have the opportunity to move the peanut program away from strict supply controls to a market-oriented approach that benefits consumers, employees in the food industry, and ultimately peanut growers. I’m here to encourage you to seize that opportunity.

I have long opposed the current peanut quota program. It’s bad policy, a relic of the Great Depression.

The peanut program is unique in that peanuts are the only commodity that use quotas to restrict production. As a result of these restrictions and price supports, the General Accounting Office (GAO) found consumers pay between \$300 million and \$500 million annually in the form of higher costs for peanut butter and other products containing peanuts.

Quite frankly, I have a hard time understanding why the U.S. Government would artificially inflate the price of peanut products. This policy harms so many for the benefit of such a select few.

I also have a hard time understanding why our government favors one group of American peanut farmers -- those who own quotas -- over other American farmers who don’t own this privilege.

I believe the time is right for a change in peanut policy, and I think many peanut farmers are starting to recognize this. Today you are going to hear from groups of

growers who not only understand that reforms are necessary, but recognize they are inevitable.

Despite the obvious needs for reform, I understand some growers not only want to maintain the current system but are actually calling for an increase in the peanut price support from \$610 per ton to \$780 per ton. I hope you agree this proposal is laughable! Why would Congress even consider such a give-away to such a privileged group of quota holders?

The world of agriculture has changed tremendously as a result of NAFTA and GATT, and the Free Trade Area of the Americas (FTAA) will continue the progress we have made in knocking down trade barriers. As we open our markets to foreign competition, our peanut quota system will be exposed as the anti-competitive cartel it is. When nations like Argentina gain tariff-free access to U.S. markets and are able to sell peanuts at half the quota price, U.S. farmers will suffer as a result. But we can prevent this by bringing the peanut program into the 21st Century and eliminating the enormous disparity between world and domestic peanut prices.

Either at the existing level or at \$780 per ton, the program creates a two-price system which is likely to be found in violation of World Trade Organization (WTO) commitments. The WTO has already ruled that the Canadian dairy program (with a higher domestic price and a lower export price) was an export subsidy, which means that U.S. maintenance of a two-price peanut program is also subject to challenge and mandated reform under the WTO.

As a strong supporter of free trade, it is clear to me we need to continue pushing for open trade among the countries of the world. My message today is simple: if peanut growers in this country don't bring their prices more in line with world prices, they will be swept away by foreign competition. Now is the time to discipline ourselves in order to discourage investment in peanut production abroad.

If I were a peanut farmer, I would be demanding these reforms. And if I represented a district with peanut farmers, I would say to them, "You need to get off this program as quickly as possible. We'll get you federal money to buy-out the quotas, but you can't sustain yourself on these programs once we knock down our trade barriers." Later today, Congressman Kanjorski and I will join a bipartisan group of more than 40 cosponsors in reintroducing our bill to eliminate the federal peanut program. Our legislation does not pull the rug out from anyone, but rather phases-out the peanut quota program, incrementally, over the next three years. In 2004, the program would

be replaced with a non-recourse loan system -- similar to that which exists for other commodities.

Congressman Kanjorski and I have also asked the General Accounting Office to investigate the peanut program so Congress will have a better understanding of how it operates. This new study will update GAO's 1993 report, titled "Peanut Program: Changes are Needed to Make the Peanut Program Responsive to Market Forces." For this update, we have specifically requested that GAO assess the impact of NAFTA, the WTO, and FTAA on the peanut industry, and the impact of the peanut program on U.S. trade objectives for other agricultural commodities.

It is our goal to reform the peanut program so it can be acceptable to American consumers. I hope this committee will take advantage of the farm bill reauthorization process to develop a program consistent with other farm programs, which encourage farmers to respond to the forces of supply and demand rather than to bureaucratic fiat.

Once again, I appreciate the opportunity to testify on this subject and would be pleased to answer any questions members of the subcommittee may have.